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**August 11, 2006**

**AGENDA ITEM 5a**

**TO: MEMBERS OF THE INVESTMENT POLICY SUBCOMMITTEE**

- I. SUBJECT:** Revision of Asset Allocation Strategy
- II. PROGRAM:** Total Fund
- III. RECOMMENDATION:** Recommend to the Investment Committee approval of the revised Statement of Investment Policy for the Asset Allocation Strategy

**IV. ANALYSIS:**

Because of fluctuating daily cash flows, cash balances can sometimes become large during the month. These large cash balances can create a drag on returns if invested in low returning cash equivalents. This revision of policy provides a mechanism to invest on a short-term basis excess cash in equities.

This revision of policy allows for using derivatives to implement overlay strategies with the effect of reducing average cash balances and increasing asset class investments. The amount of leverage associated with derivative positions will be monitored to ensure that leverage in excess of total plan assets does not occur.

This application of derivatives is restricted only to managing cash balances and does not represent a significant increase in the use of derivatives.

Justification for the above strategies includes the following:

1. Enhance the System's total return;
2. Reduce the risk assumed in the Fund; and
3. Minimize the execution cost of tactical asset allocation adjustments.

An opinion letter from Wilshire supporting the revised policy language is included with this agenda item.

This item presents the revised Asset Allocation Strategy policy.

**V. STRATEGIC PLAN:**

This item is consistent with the Strategic Plan, Goal VIII, manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions and Goal IX, achieve long-term, sustainable, risk adjusted returns.

**VI. RESULTS/COSTS:**

No costs are associated with this item.

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Richard Roth  
Portfolio Manager

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Patricia Pinkos  
Senior Investment Officer

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Anne Stausboll  
Assistant Executive Officer